

Michigan Business Tax

Michigan Department of
Treasury

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Michigan Business Tax

- Replaced the Single Business Tax on 1/1/2008
- Generated \$1.9 billion in FY 2008, \$2.3 billion in FY 2009 & \$1.9 billion in FY 2010.
- Estimated to generate \$2.1 billion in FY 2011 and \$2.2 billion in FY 2012.
- Enactment of MBT included certain personal property tax exemptions for industrial and commercial property
- The MBT includes four taxes, numerous tax credits, and a surcharge

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Michigan Business Tax Rates

- A Business Income Tax at 4.95%
- A Modified Gross Receipts Tax at 0.8%
- Surcharge added at 21.99% capped at \$6 million per taxpayer
- A Special Premiums Tax for insurance companies at 1.25%
- A Special Net Capital Tax for financial institutions at 0.235% with added surcharge at higher rates than general surcharge

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Business Income Tax Base

- Starting point is federal taxable income from business activity
- Includes non-corporate entities with deduction for net earnings from self-employment
- Unitary groups . . .
 - File a combined return
 - Add tax bases of group members – apply combined apportionment %
 - Foreign operating entities, insurance companies, & financial institutions cannot participate
- Business loss after 2007 may be carried forward 10 years

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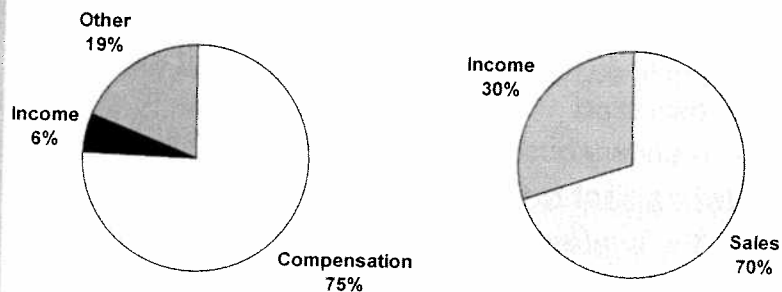
Modified Gross Receipts Base

- Tax base is a taxpayer's gross receipts less "purchases from other firms" before apportionment
- Purchases from other firms means
 - Inventory acquired during the year
 - Depreciable assets acquired during the year
 - Materials and supplies, including repair, parts and fuel

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Eliminated Payroll From Base Increased Reliance on Profits

Components of Tax Base



Single Business Tax

Michigan Business Tax

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Source SBT: Exhibit 12, *Michigan Single Business Tax Statistical Tables, 2002-2003*, Michigan Department of Treasury

Insurance Company Tax

- In lieu of modified gross receipts and business income taxes
- 1.25% of gross direct premiums written on property or risk located in Michigan
- No apportionment – only premiums on Michigan risks and property are taxed
- Retaliatory tax as described in insurance code is still in place (same as SBT provision)
- Maintain credits for assessments paid to various shared-risk association/facilities

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Financial Institution Tax

- Financial institution tax limited to
 - Banks, thrift banks, and savings and loans
 - Entity owned directly or indirectly by a financial institution
 - A unitary business group of these entities
- Net capital defined as:
 - The average of net capital for current tax year and 4 prior years (computed per GAAP)
 - Exception for new businesses

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MBT Structure – Major New Credits & Retained Credits

- Compensation and Investment Credits
- Research and Development Credits
- Credit to Phase-Out the Filing Threshold
- Personal Property Tax Credit
- Michigan Entrepreneurial Credit
- Film Credit
- Battery Credits
- Special Sector Credits – Motor Sports, Stadium, Motor Vehicle dealers, Large Retailers
- Retained Credits include: small business, public contribution, food bank, MEGA, renaissance zones, historic preservation, brownfield, and others

